

Information Technology Agreement of the WTO: Why Sri Lanka Should Sign

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The Information Technology Agreement (ITA) was a preferential trade agreement drawn up by the World Trade Organization (WTO) in 1996 to reduce and eventually eliminate tariffs on IT products of all signatory nations.

A hundred and eleven IT products have been listed in the ITA, ranging from chemicals used in the production of electronics to electrical machines and apparatuses. If Sri Lanka does sign the ITA, tariffs on the listed items will be slashed.

Information from the WTO and Sri Lanka Customs website have helped identify 139 products with varying codes of four, six and eight digits with eligibility to be classified under the ITA. On the broadest level of classification, there are 27 four-digit HS codes. There are 47 subcategories where eight digit codes have included instead of the six-digit code mentioned in the ITA due to a lack of information at the broader level.

It is noteworthy that the product list used at present is the one in the original document that was drawn up in 1996. The HS codes, on the other hand, are revised every five years, indicating that there may be a mismatch of the HS codes. This makes identification of the tariffs applicable to given products difficult.¹

Fifty five per cent of the listed products, are tax-free in Sri Lanka. No tariffs have been imposed on chemical elements used in electronics (HS 3818), electrical capacitors (HS 8532), electrical resistors (HS 8533), diodes, transistors and other semiconductor devices (HS 8541), instruments and apparatus for measuring or checking the flow, level, pressure or other variables of liquids or gases and instruments (HS 9026) and apparatus for physical or chemical analysis (9027). There are also no tariffs on items such as CD and DVD drives (HS 8471 70 30 90), central processing units (HS 8473 30), desktop computer systems, personal computers and tower computer systems (HS 8471 49), laptop and notebook computers (HS 8471 30) and scanners (HS 8471 60).

A general tariff of five per cent has been imposed on four items including those which are classified as other, such as inductors for power supplies for automatic data processing machines and telecommunication apparatus (HS 8504 50), electrical apparatus used as starters for fluorescent lamps (HS 8536 50 10) and in radio apparatus and electrical apparatus, machinery and instruments (HS 8536 50 20). It is noteworthy that although the general tariff is five per cent, exceptions have been made for imports from certain regions. A tariff of four per cent has been imposed to those who have ratified the South Asia Free Trade Agreement (SAFTA) with a 20 per cent margin of preference, while the signatories of SAFTA who have been identified as developing countries are subject to a tariff of one point five per cent with a margin of preference of 70 per cent. In addition to the abovementioned, the countries who have signed the Asia Pacific Free Trade Agreement (APTA) are subject to a concessional tariff of four point five in the case of HS 8536 50 20, thus getting a margin of preference of ten per cent.

Similar findings are seen in the ten items with a 15 per cent tariff and the nine items with a 30 per cent tariff. A general tariff of 15 per cent has been imposed for certain types of microphones (HS

¹ http://www.icrier.org/pdf/july_2012_wto_newsletter.pdf

8518 10), loudspeakers (HS 8518 29), parts of transmission apparatus (HS 8529 90), main switches of 24 amp and over (HS 8536 50 30), printed circuits (HS 8534), Indicator panels incorporating LCD and LEDs (HS 8531 20) and its parts (HS 8531 90). However, concessional tariffs have been imposed on countries that have signed and ratified the SAFTA and for the SAFTA developing countries, with tariffs of 10.83 per cent and four point five per cent respectively.

Those who have signed the APTA have a margin of preference of 10 per cent with a tariff of 13.5 per cent in the cases of HS 8529 90 and HS 8536 50. Meanwhile, HS 8544 49 90 and HS 8536 90 90 have only a 15 per cent general tariff with the signatories of APTA having a margin of preference of ten per cent with a tariff of 13.5 per cent for the latter.

Parabolic antennas and parabolic reflector dishes (HS 8529 10 10), other outdoor TV antennas and aerials (HS 8529 10 20/30), certain electrical apparatuses (HS 8536 50 90) all have a general tariff of 30 per cent. The signatories of SAFTA are subject to a tariff of 17.5 per cent with a margin of preference of 42 per cent while a tariff of five per cent has been imposed for the signatories of SD with a margin of preference of 83 per cent.

Additionally, members of APTA are subject to a 27 per cent tariff as opposed to a 30 per cent tariff in the case of HS 8536 50 90 with a margin of preference of ten per cent. On the other hand, certain types of insulated wire such as those with a voltage not exceeding 80v (HS 8544 49 10), those with up to four cored un armoured wire and cable not exceeding 16mm conduct or cross section per core (HS 8544 49 20), single and multi cored wire and cable not exceeding 185mm conduct or cross section per core (HS 8544 49 30) and armoured and underground cables not exceeding 150mm conduct or cross section per core (HS 8544 49 40) have a uniform 30 per cent general tariff.

There is no information available on 38 products including essential items such as accounting machines (HS 8470 40), certain telephone sets and videophones (HS 8517 19), facsimile machines (HS 8517 21), prepared unrecorded media for sound (HS 8523), recorded sound media equipment (HS 8524), transmission apparatus (HS 8525), electronic integrated circuits (HS 8542) and photocopying and thermo copying apparatuses (HS 9009).

Statistics obtained from the Department of Commerce of Sri Lanka shows that almost a third of the products with the 4 digit HS codes included in the ITA were imported from China in 2012. Singapore, Hong Kong, India, Indonesia and Malaysia were among the other top 5 countries of which a significant portion of the IT products were imported.

From the available information (102 products), the average tariff is four point three per cent and 77.5 per cent have no tariffs imposed on them. Four point nine per cent of the products have a five per cent tariff while nine point eight per cent and eight point eight per cent of products have tariffs of 15 per cent and 30 per cent respectively.

When looking at the product description of the products with no information, it can be observed that certain products have been listed under different HS codes after the quinquennial revisions. For example, in the ITA the mobile phones would have been listed under HS 8517 19 which accounts for other telephone sets and videophones while under the current coding system it is listed as HS 8517 12 which includes telephones for cellular networks or for other wireless networks. Hence, although current research states that no information is available on HS 8517 19, there is information on HS

8517 12: it has a zero tariff. Thus, if the product list was altered after the quinquennial revisions, it could be possible to get more accurate information.

Furthermore, the fact that the ITA has failed to keep up with innovations and new products in the industry is evident. Certain products listed in the ITA such as metal oxide semiconductors (HS 8542 13), monolithic integrated circuits (HS 8542 19, HS 8542 30) and magnetic tapes (HS 8523 11, HS 8523 12 , HS 8523 13) have been deemed obsolete at present. ² Newer products such as Bluetooth devices, GPS systems, Wi-Fi units and smart meters are not included in the ITA at present. ³

Signing the ITA would mean that the existing tariffs on the 77.5 per cent products with no tariffs would be locked in. Furthermore, tariffs on the remaining 22.5 per cent products would have to be minimized to a zero level, as per WTO regulation. ⁴ Taking into consideration that Sri Lanka is a net importer of IT products, eliminating tariffs on the given products would increase the ability of local importers to buy the products at a lower price and increase consumer welfare. Given that a significant portion of the product list constitutes items used as capital in the production of other goods, being a part of the agreement could increase productivity and reduce costs for producers. Locking in the tariffs would mean that long term decisions could be made with regard to the importation of the products as opposed to the uncertainty which lies with the possibility of tariff fluctuations.

The school of thought against signing the ITA would believe that existing tariffs are a method of protecting domestic industries, as the elimination of tariffs would allow cheaper imports to penetrate the local markets. It is notable that certain products on which tariffs have been imposed are ones which are also produced domestically. Sri Lanka also has a large budget deficit, thus may use the income from the selected tariffs as means of revenue generation.

Signing the ITA would be a significant change from the status quo where there is no legislature or agreement binding the government to lock in tariffs. Once the relative costs have been weighed, the relative merits of signing the ITA can be seen clearly.

The following setbacks have been encountered in this study.

- The existing tariffs on the 38 unlisted products have not been identified
- HS codes of products included in the ITA following quinquennial revisions have not been obtained.
- The information on the exact products listed in the ITA have not been found in all cases. In many instances, tariffs on certain eight digit HS codes have been found while the tariffs on the six HS digit codes, which was the form in which it was listed, have not (marked in blue in the MS Excel spreadsheet). Thus due to lack of information on a broader level of classification, certain products may have been missed out on.

² Kuriyama, C & Ogazom, A (2013). Expanding the Information Technology Agreement (p. 3)

³ http://content.thirdway.org/publications/642/Third_Way_Digest_-_Q_A_on_the_ITA_Five_Questions_on_the_Information_Technology_Agreement.pdf

⁴ http://www.wto.org/english/tratop_e/serv_e/wkshop_june13_e/future_proofing_e.pdf